FUND BALANCE ANALYSIS

Financial statements prepared for school districts involve the General (Incidental Fund, Special Revenue (Teachers) Fund, Debt Service Fund, and the Capital Projects Fund. The balance in the Debt Service Fund is highly predictable because expenditures consists of usually only two items (principal and interest) and are known in advance for as much as 20 years. The Debt Service Fund, beginning August 28, 1993, is to have its own separate bank account, separate from the bank account for district's operating funds' monies. ["Operating funds" are <u>all</u> funds <u>but</u> the Debt Service Fund.] Further, the State Auditor's Office monitors the fund balance in the Debt Service Fund in calculating the maximum annual Debt Service Fund levy, especially following general reassessment or maintenance of reassessment. For these reasons, the Debt Service Fund balance will be excluded from this fund balance analysis.

Discussion of the Capital Projects Fund balance shall also be dismissed because it is highly restricted in terms of its usage and derivation. Capital Projects Fund money may be spent only for the erection of buildings or additions to buildings, the remodeling or reconstruction of buildings, the furnishings for a building, the payment of lease purchase obligations, the purchase of real estate, and all other capital outlay expenditures. Any expenditure for a replacement item or for purchase of additional equipment that has a unit cost of $500 or more and a useful life estimated at more than one year may be made from the Capital Projects Fund. This means current operating expenses (repairs, supplies, etc.) cannot be paid from the Capital Projects Fund.

This leaves the concern for fund balances in the General Fund and Special Revenue Fund; a concern shared by board members, administrators, teachers groups, citizens, taxpayers, short-term lenders, and occasionally the Department. The fund balance is the primary indicator of financial viability and stability. The one widely held misconception regarding fund balances is that they should either be equal to 10 percent of annual expenditures (or some other magical percent) or that they should equal one month's payroll. The truth is that fund balances should fluctuate according to the individual school district's primary source of revenue. Some school districts receive 70 percent of their revenue from State/Prop "C"/Federal sources and 30 percent from local sources. Other districts are just the reverse with 70 percent from local sources and 30 percent from State/Prop "C"/Federal sources. In short, it involves cash flow.

What difference does it make where the revenue originates? Since State/Prop "C"/Federal revenues are received on a continuous monthly basis throughout the fiscal year, timing is the difference. Local taxes on the other hand are received primarily in January, over six months into the district's fiscal year. **According to law, a school district shall <u>not</u> issue a check unless there is sufficient money in the proper fund[Section 165.021(4), RSMo].** Therefore, at a minimum, a school district should carry a combined fund balance in the General and Special Revenue Funds sufficient to make it through December without going negative on a fund balance basis.

Using a copy of the district's most recent annual financial statement, some calculations may be made to estimate a minimum combined General and Special Revenue Funds ending fund balance.

Fund Balance Analysis

From the **Annual Secretary of the Board Report (ASBR):**

1. From Part II-Revenue Summary (page 2), sub-total line 5199 for the General and Special Revenue funds, add local revenue subtotals.

   1(a) Part II, Line 5199 (General plus Special Revenue Funds) $_________________

   Subtract Proposition "C" revenue total .

   1(b) Part II, Line 5113 (General plus Special Revenue Funds) - $_________________

   Total and enter the result.

   1(c) Total of lines 1(a) and 1(b) $_________________

2. From Part II-Revenue Summary (page 2), grand total line 5899, add the amounts in the General and Special Revenue Funds.

   2(a) Part II, Line 5899 (General plus Special Revenue Funds) $_________________

   Subtract the dollar amount on line 1(c) above. - $_________________

   Total and enter the result.

   2(b) Total of lines 2(a) and 1(c) $_________________

   Divide line 2(b) above by 12 (assumes that state and federal revenues will be received in equal monthly installments.

   2(c) Line 2(b) _____________ divided by 12 = $_________________

3. From Part III-A-Expenditures/Program by Fund (page 3), grand total line 9999 in the General Fund, divide expenditures by 12.

   3(a) Part III-A, Line 9999 (General Fund) _____________divided by 12 = $_________________

   From Part III-A-Expenditures/Program by Fund (page 3), grand total line 9999 in the Special Revenue Fund, divide expenditures by 9. (Assume, for purposes of this exercise, that no Special Revenue Fund expenditures occur in July and August. This is generally true as usually only administrators are paid as July and August expenditures from the Special Revenue Fund.)

   3(b) Part III-A, Line 9999 (Special Revenue) ______________divided by 9 = $_________________

   Add lines 3(a) and 3(b).

   3(c) Total of lines 3(a) and 3(b) $_________________

4. From Part I-Summary (page 1), Transfer From line 6710 in the General Fund, divide the General Fund transfer total by 12.

   4 Part I-A, Line 6710 (General Fund) __________ divided by 12 = $_________________

Using the chart below and a zero ($0.00) beginning balance, add on the revenue line the equal monthly revenues from line 2(c) above <u>through December</u>.

Add the value of line 1(c) local revenue above and one month of line 2 (d) revenue above and enter for January.

On the expenditure line, enter line 3(a) above expenditure amount for July and August.

Then enter line 3(c) above for September, October, November, December, and January.

Finally, starting with the month of July, add zero ($0.00) (the beginning balance) plus July revenue minus July expenditures minus July transfers and enter the result as the ending balance. Move the month's ending balance to the beginning balance for August. Repeat the procedure through January.

	July	August	September	October	November	December	January
Beginning Balance	0.00						
Revenues							
Expenditures							
Transfers							
Ending Balance							

Since the analysis started with a zero balance in July, it is very probable that the district might show a negative balance in either October, November, or December. The largest cumulative negative balance, should one occur, by definition is the minimum beginning balance that the district should have on hand in July to start the year. Or stated in another way, the largest cumulative negative balance should be the June 30 minimum combined unrestricted ending balance for the General and Special Revenue Funds of the previous year.

Remember, if the district receives a smaller percent of its revenue from state aid and depends more on local revenues, then the district will have to carry a larger fund balance than other districts who may be receiving a larger percent of its revenue from state aid amounts rather than local taxes. The above method is overly simplified and a far better job could be done with more detail.